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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

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**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01 / 01 / 07 AND ENDING 12 / 31 / 07  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

**BERCHWOOD PARTNERS LLC**

OFFICIAL USE ONLY

FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**599 LEXINGTON AVENUE, SUITE 2750  
NEW YORK, NY 10022**

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**DAVID W. BERCHENBRITER**

**212-201-3933**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**ANCHIN, BLOCK & ANCHIN LLP**

(Name - if individual, state last, first, middle name)

**1375 BROADWAY** **NEW YORK** **NY** **10018**  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**

**MAR 21 2008**

**THOMSON  
FINANCIAL**

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\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)


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## OATH OR AFFIRMATION

I, **David Berchenbriter**, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **Berchwood Partners LLC** as of **DECEMBER 31, 2007**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows: **NONE**.

**WILLIAM J. ZWART**  
Notary Public, State of New York  
No. 02ZW6017834  
Qualified in New York County  
Commission Expires: 12/14/10

  
Signature  
Managing Member  
Title

  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditor's Report on Internal Control

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

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**CONSOLIDATED ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**BERCHWOOD PARTNERS LLC AND AFFILIATE**

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**DECEMBER 31, 2007**

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Established 1923

**Anchin, Block & Anchin LLP**  
Accountants and Consultants

1375 Broadway  
New York, New York 10018  
(212) 840-3456  
FAX (212) 840-7066

## INDEPENDENT AUDITORS' REPORT

### **TO BERCHWOOD PARTNERS LLC AND AFFILIATE:**

We have audited the accompanying consolidated statement of financial condition of BerchWood Partners LLC and Affiliate as of December 31, 2007 and the related consolidated statements of operations, changes in members' equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BerchWood Partners LLC and Affiliate at December 31, 2007 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Anchin, Block & Anchin LLP*  
*Anchin, Block & Anchin LLP*

New York, New York  
February 28, 2008

**BERCHWOOD PARTNERS LLC AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2007**

**ASSETS**

Cash	\$ 953,533
Cash - restricted	41,682
Fees receivable	4,772,987
Property and equipment at cost, less accumulated depreciation of \$81,025	55,310
Other assets	<u>18,114</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,841,626</u></b>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES:**

Accrued expenses	\$ 62,214
Due to former members	339,002
Current income taxes payable	10,704
Deferred income taxes payable	171,000
Retirement plan contribution payable	<u>273,333</u>
 Total Liabilities	 856,253

**COMMITMENTS AND CONTINGENCIES**

<b>MEMBERS' EQUITY (INCLUDING MINORITY INTEREST IN VARIABLE INTEREST ENTITY)</b>	<u>4,985,373</u>
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<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b><u>\$ 5,841,626</u></b>
--	----------------------------

See the accompanying Notes to Consolidated Financial Statements.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**REVENUE:**

Fee income	\$ 4,461,790
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**EXPENSES:**

Employee compensation and benefits	\$ 424,743
Retirement plan contribution	273,333
Rent	198,824
Consulting and professional fees	317,518
Communications and computer expenses	97,889
Regulatory expenses	29,107
Travel	141,589
Dues and subscriptions	20,785
Depreciation	23,622
Other expenses	<u>115,510</u>

Total Expenses	<u>1,642,920</u>
----------------	------------------

<b>OPERATING INCOME</b>	<b>2,818,870</b>
-------------------------	------------------

**OTHER INCOME :**

Other income	1,750
Interest income	<u>122,252</u>

Total Other Income	<u>124,002</u>
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<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>2,942,872</b>
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**PROVISION FOR INCOME TAXES:**

Current	116,680
Deferred	<u>(58,000)</u>

Total Provision for Income Taxes	<u>58,680</u>
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<b>INCOME BEFORE MINORITY INTEREST</b>	<b>2,884,192</b>
--	------------------

<b>MINORITY INTEREST IN VARIABLE INTEREST ENTITY</b>	<u><b>(365,354)</b></u>
--	-------------------------

<b>NET INCOME</b>	<u><u><b>\$ 2,518,838</b></u></u>
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See the accompanying Notes to Consolidated Financial Statements.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>MEMBERS</u>	<u>MINORITY INTEREST IN VARIABLE ENTITY</u>	<u>TOTAL</u>
Members' Equity, January 1, 2007	\$ 7,093,228	\$ 43,478	\$ 7,136,706
Distributions	(4,751,761)	(283,764)	(5,035,525)
Net income	<u>2,518,838</u>	<u>365,354</u>	<u>2,884,192</u>
Members' Equity, December 31, 2007	<u>\$ 4,860,305</u>	<u>\$ 125,068</u>	<u>\$ 4,985,373</u>

See the accompanying Notes to Consolidated Financial Statements.



**BERCHWOOD PARTNERS LLC AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income		\$ 2,518,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 23,622	
Deferred income taxes	(58,000)	
Minority interest in variable interest entity	365,354	
(Increase) decrease in:		
Cash - restricted	(1,285)	
Fees receivable	1,268,334	
Other assets	(11,757)	
Increase (decrease) in:		
Accrued expenses	(282,911)	
Current income taxes payable	(14,296)	
Retirement plan contribution payable	72,500	
Total adjustments		<u>1,361,561</u>
Net Cash Provided by Operating Activities		<u>3,880,399</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property and equipment	<u>(8,984)</u>	
Net Cash Used in Investing Activities		(8,984)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Decrease in capitalized lease obligation	(12,356)	
Distributions to members	(4,482,167)	
Distributions to minority interest variable interest entity	<u>(283,764)</u>	
Net Cash Used in Financing Activities		<u>(4,778,287)</u>

**NET DECREASE IN CASH** (906,872)

**CASH:**

Beginning of year	<u>1,860,405</u>
End of year	<u>\$ 953,533</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Income taxes paid	\$ 130,976
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**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

Increase in distributions payable to former members	\$ 269,594
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See the accompanying Notes to Consolidated Financial Statements.

## **BERCHWOOD PARTNERS LLC AND AFFILIATE**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **Organization:**

BerchWood Partners LLC (the "Company") was organized in New York on June 8, 2000, as a limited liability company. The Company wholly owns BerchWood Limited ("BerchWood Ltd."), which is a minority partner in the BerchWood Partners LLP ("Affiliate"), both located in the United Kingdom ("UK"). In 2007, the Company has included in its consolidated financial statements, the net assets, income and expenses of the Affiliate as it is determined to be a variable interest entity through contractual arrangements and the Company is deemed to be the primary beneficiary. All significant inter-company transactions between the Company and Affiliate have been eliminated in consolidation. BerchWood Ltd. had no operations during the year.

##### **Principal Business Activity:**

The Company is a registered broker with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company is primarily engaged in raising capital for private equity and alternative U.S. and non-U.S. investment fund managers.

The Affiliate is registered with the UK Financial Services Authority (FSA). The Affiliate is engaged in raising capital for private equity and alternative investment fund managers in the UK and Continental Europe.

##### **Financial Statement Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Revenue and Expense Recognition:**

The Company receives fees for acting as a placement agent. Non-refundable retainer fees for performance of these services are recognized as they become due on a monthly or quarterly basis. Additional fees for successful placement are recognized when the transaction closes and other terms of the agreement are satisfied.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Revenue and Expense Recognition (Continued):**

Reimbursable expenses of \$135,329 have been fully offset against the related reimbursement income in the statement of operations.

Advertising costs are expensed as incurred. Advertising expense was \$6,240 for the year.

**Fees Receivable and Allowance for Doubtful Accounts:**

The Company's fees receivable are recorded at amounts billed to customers, and presented on the statement of financial condition net of the allowance for doubtful accounts, if required. The allowance is determined by a variety of factors, including the age of the receivables, current economic conditions, historical losses and other information management obtains regarding the financial condition of customers. The policy for determining the past due status of receivables is based on how recently payments have been received. Receivables are charged off when they are deemed uncollectible, which may arise when customers file for bankruptcy or are otherwise deemed unable to repay the amounts owed to the Company.

**Property and Equipment:**

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

**Income Taxes:**

No provision is required for federal or state taxes on the income of the Company. Under the Internal Revenue Code and similar state regulations the Company is treated as a partnership; accordingly, the income of the Company is taxed to the members. However, the Company is subject to the New York City Unincorporated Business Tax and a provision has been reflected in the financial statements. Deferred income tax expense has been recognized primarily as a result of the Company being on a cash basis for tax purposes and relates primarily to fees receivable. The total deferred tax liability is presented on the statement of financial condition.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Foreign Currency Translation and Transactions:**

Fees receivable denominated in foreign currencies are measured at the foreign exchange rate on the transaction date. At the balance sheet date and upon settlement, the receivable is re-measured at the then current rate. Gains and losses arising from these transactions are included in income.

The accounts of the Affiliate are measured in its functional currency which is the local currency (British Pounds) and translated into US Dollars. All balance sheet accounts have been translated using the current rate of exchange at the balance sheet date. Results of operations have been translated using the average rates prevailing throughout the year. Translation gains or losses, if significant, are included in other comprehensive income.

**NOTE 2 - CASH SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS:**

The Company is not required to maintain a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission under Section K(2)ii of the Rule.

**NOTE 3 - NET CAPITAL REQUIREMENTS:**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2007 the Company had net capital of \$106,805 which was \$61,121 in excess of its required minimum net capital of \$45,684. The Company's ratio of aggregate indebtedness to net capital was 6.42 to 1.

**NOTE 4 - FEES RECEIVABLE:**

The fees receivable include \$1,352,709 from three customers at December 31, 2007 which are payable in installments through March 2009. The original success fees were discounted at a rate of 8.25%. The total unamortized discount as of December 31, 2007 was approximately \$108,000, and is being amortized as interest income by the interest method.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - COMMITMENTS AND CONTINGENCIES:**

Leases:

The Company rents its office space under an operating lease expiring February 10, 2009. The lease has escalation clauses that provide for additional rentals based on increases in real estate taxes and operating costs.

The Company entered into a new operating lease for office space in California commencing January 1, 2008 which expires January 31, 2009.

The Affiliate rents its office space under an operating lease expiring January 16, 2009. The future minimum payments under the noncancellable operating lease are subject to additional rentals based on increases in operating costs.

Future minimum lease payments under the noncancellable operating leases (including affiliate) as of December 31, 2007 are as follows:

Years Ending December 31,

2008	\$ 168,308
2009	<u>10,339</u>
Total minimum lease payments	<u>\$ 178,647</u>

Letter of Credit:

A letter of credit of \$36,556 was outstanding at December 31, 2007 for the Company's leased office space and is secured by a certificate of deposit which is reflected as restricted cash on the Company's statement of financial condition.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED):**

**Cash Credit Risk Concentration:**

The Company maintains a bank account in the New York City metropolitan area. The excess of deposit balances reported by the bank over amounts covered by federal insurance was approximately \$749,000 at December 31, 2007.

**Other Matters:**

On July 26, 2006, a binding arbitration proceeding between the Company and a former member was completed settling all claims and counterclaims.

The arbitration award required the former member to delete and return the Company's data and equipment in his possession. It also specified the amount due to the former member as of December 31, 2005 and defines the methodology for computing future distributions to the former member from specified client engagements.

On June 26, 2007, another member of the Company withdrew and a separation agreement was executed setting forth the methodology for computing future distributions to this former member from specified client engagements.

The financial statements reflect an estimated liability of \$339,002 to the former members for amounts due and unpaid at December 31, 2007, which will be substantially paid in 2008.

**NOTE 6 - RETIREMENT PLAN:**

The Company maintains a retirement plan which covers all eligible members and employees. Employer contributions are discretionary.

**NOTE 7 - CONCENTRATION OF CUSTOMER AND CREDIT RISK:**

Three customers, located in the United States, accounted for 65%, 13% and 13%, respectively of fees earned for the year.

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - VARIABLE INTEREST ENTITY:**

The Company wholly owns BerchWood Limited ("BerchWood Ltd") a minority partner in an affiliated entity located in the United Kingdom, BerchWood Partners LLP. The Company's consolidated statement of financial condition at December 31, 2007 includes total assets of the Affiliate which totals approximately \$160,000.



**Anchin, Block & Anchin LLP**  
Accountants and Consultants

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**INDEPENDENT AUDITORS' REPORT**

**ON**

**SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**

**TO BERCHWOOD PARTNERS LLC AND AFFILIATE:**

We have audited the accompanying consolidated financial statements of BerchWood Partners LLC and Affiliate as of December 31, 2007 and have issued our report thereon dated February 28, 2008. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information contained in the accompanying schedule is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Anchin Block & Anchin LLP*  
*Anchin, Block & Anchin LLP*

New York, New York  
February 28, 2008



**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**COMPUTATION OF NET CAPITAL PURSUANT TO UNIFORM NET CAPITAL  
RULE 15c3-1 AND RECONCILIATION OF THE COMPUTATION OF NET CAPITAL  
PURSUANT TO UNIFORM NET CAPITAL RULE 15c3-1 INCLUDED IN THE  
COMPANY'S CORRESPONDING UNAUDITED FORM X-17A-5 PART IIA FILING  
WITH COMPUTATION INCLUDED IN THE REPORT PURSUANT TO RULE 17a-5(d)**

**AS OF DECEMBER 31, 2007**

<b>TOTAL MEMBERS' EQUITY QUALIFIED FOR NET CAPITAL</b>		<b>\$ 4,985,373</b>
<b>ADD: ADJUSTMENTS TO NET WORTH</b>		
Deferred income taxes payable		171,000
<b>LESS: NONALLOWABLE ASSETS</b>		
Cash - restricted	\$ 41,682	
Cash - affiliate	161,475	
Fees receivable	4,772,987	
Property and equipment, net of accumulated depreciation	55,310	
Other assets	18,114	
<b>TOTAL NONALLOWABLE ASSETS</b>		<b>(5,049,568)</b>
<b>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS</b>		<b>106,805</b>
<b>HAIRCUTS ON SECURITIES</b>		<b>-</b>
<b>NET CAPITAL</b>		<b>106,805</b>
<b>MINIMUM NET CAPITAL REQUIREMENT OF 6 2/3% OF AGGREGATE INDEBTEDNESS OF \$685,253 OR \$5,000 WHICHEVER IS GREATER</b>		<b>45,684</b>
<b>EXCESS NET CAPITAL</b>		<b>\$ 61,121</b>
<b>RECONCILIATION WITH COMPANY'S COMPUTATION (INCLUDED IN PART II OF FORM X-17A-5 AS OF DECEMBER 31, 2007) SEE PAGE 16</b>		
<b>TOTAL AGGREGATE INDEBTEDNESS</b>		<b>\$ 685,253</b>
<b>RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</b>		<b>6.42 to 1</b>

**BERCHWOOD PARTNERS LLC AND AFFILIATE**

**RECONCILIATION OF NET CAPITAL PURSUANT TO UNIFORM  
NET CAPITAL RULE 15c3-1 WITH COMPANY'S COMPUTATION  
(INCLUDED IN PART II OF FORM X-17A-5)**

**AS OF DECEMBER 31, 2007**

Net Capital, as reported in Company's Part II (unaudited) FOCUS report As Originally Filed	\$ 99,979
Audit Adjustments - Decrease in accrued expenses and other liabilities	<u>6,826</u>
Net Capital (audited)	<u>\$ 106,805</u>

See Independent Auditors' Report on Supplementary Information.



**Anchin, Block & Anchin LLP**  
Accountants and Consultants

1375 Broadway  
New York, New York 10018  
(212) 840-3456  
FAX (212) 840-7066

**INDEPENDENT AUDITORS' REPORT ON**  
**INTERNAL ACCOUNTING CONTROL REQUIRED BY**  
**SEC RULE 17a-5**

**TO BERCHWOOD PARTNERS LLC AND AFFILIATE:**

In planning and performing our audit of the consolidated financial statements and supplemental schedule of BerchWood Partners LLC and Affiliate (the "Company"), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and supplemental schedule, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons and recordation of differences required by Rule 17a-13.

2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Anchin, Block & Anchin LLP  
*Anchin, Block & Anchin* LLP

New York, New York  
February 28, 2008

END